

# Committee on Ways and Means

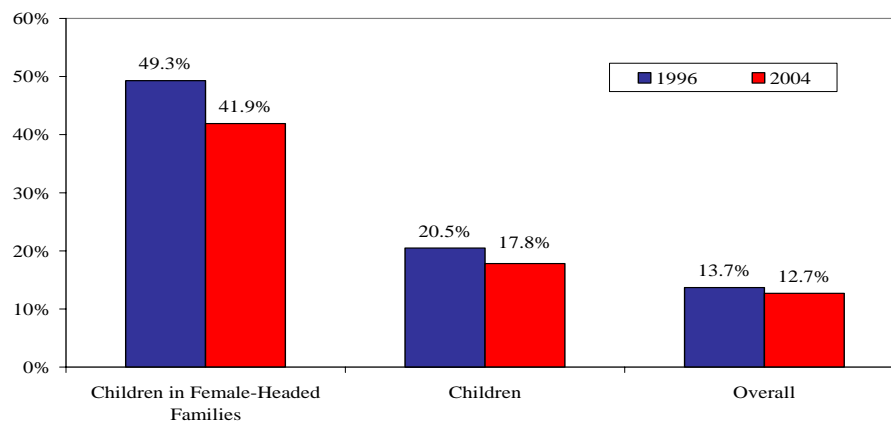
## *Subcommittee on Human Resources Report*

### A Decade Since Welfare Reform: 1996 Welfare Reforms Reduce Poverty

#### *Key Facts*

- **Key poverty rates declined in the wake of the 1996 welfare reforms.**
  - The overall poverty rate dropped 7%, from 13.7% in 1996 to 12.7% in 2004.<sup>1</sup>
  - The child poverty rate dropped 13%, from 20.5% in 1996 to 17.8% in 2004.
  - Compared with 1996, 1.4 million fewer children lived in poverty in 2004.
  - Poverty among children in female-headed families - the group most likely to go on welfare – dropped 15%, from 49.3% in 1996 to 41.9% in 2004.<sup>2</sup>

Key Poverty Rates Fall in Wake of 1996 Welfare Reforms



- **Declines in poverty occurred throughout society.**
  - White, African-American, and Hispanic poverty rates all declined since 1996 – by 4%, 13%, and 26% respectively.
  - Declines were especially remarkable among African-American and Hispanic children. The number of black children living in poverty fell by about 700,000. The number of Hispanic children living in poverty fell by more than 100,000, even as the number of Hispanic children in the U.S. rose by nearly 4 million.
- **These *real declines* in poverty contrast sharply with *predicted increases* in poverty forecast by opponents of the 1996 reforms.**

## *Additional Background*

A central component of the welfare reform debate in the 1990s involved poverty, and whether work-based reforms would help lift low-income families out of poverty.

On one side stood opponents of reform, who denounced the 1996 reforms and loudly predicted they would drive literally millions of families and children into poverty. Congresswoman Nancy Pelosi (D-CA) predicted on July 18, 1996 on the House floor that “the Republican welfare reform proposal will make the problems of poverty and dependence much worse.” Rep. Sheila Jackson-Lee (D-TX) on July 31, 1996 cited a widely-quoted study by the Urban Institute, projecting “the welfare legislation passed by the House would increase the number of children in poverty by 1.1 million, or 12 percent.” Children’s Defense Fund President Marian Wright Edelman said welfare reform legislation “will hurt and impoverish millions of children,” among other ills<sup>3</sup>.

On the other side of this divide stood welfare reform supporters, who argued the then-current welfare system did little to lift families out of poverty, and instead trapped millions of families on meager benefits that guaranteed these families stayed in poverty year after year.

What actually happened? Simply put, in the years since enactment of the 1996 welfare reform law, work-based reforms yielded more work, more earnings, and less poverty. Earnings for welfare recipients remaining on the rolls increased significantly, as did earnings for female-headed households in general, which no doubt include many households encouraged by reforms to remain off of welfare in favor of work.<sup>4</sup> The post-reform increases in work and earnings were particularly large for female-headed families in the bottom two income quintiles, that is, those headed by women most likely to be current or former welfare recipients. As a result, poverty declined sharply, especially among children. For example, poverty among African-American children reached record lows in the years following reform. Overall, instead of rising by one million or more as opponents predicted, more than one million children left poverty in the wake of the 1996 welfare reforms.

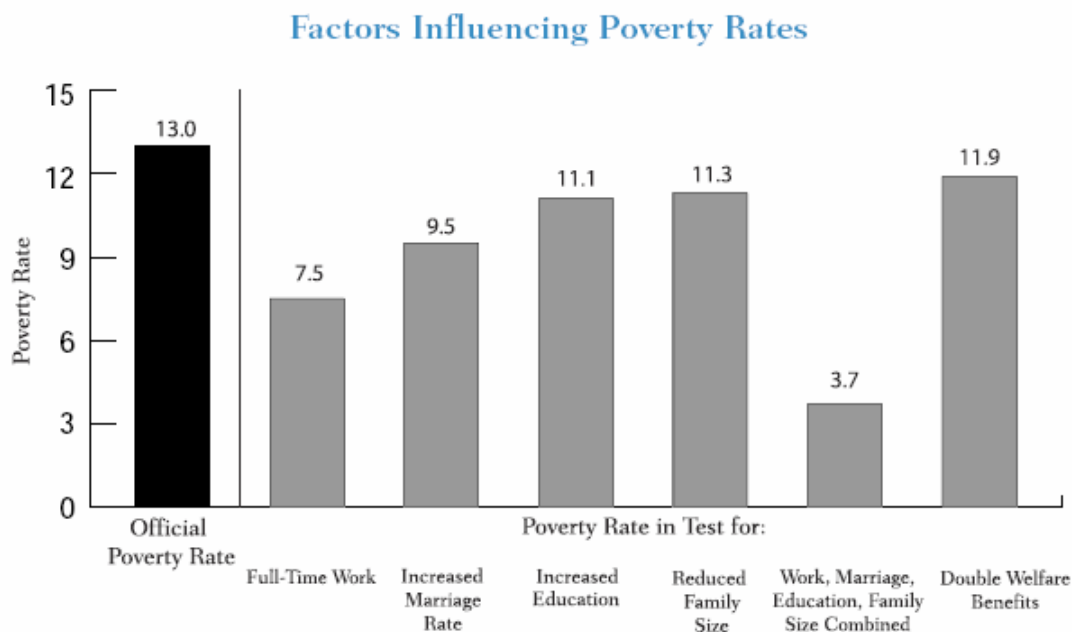
Disentangling the effects of reform, the economy, immigration, and other variables is a challenge for researchers. Yet various post-reform analyses have underscored the obvious: the period following welfare reform was marked by rising work and incomes and declining poverty among low-income families.<sup>5</sup> A report by former Congressional Budget Office Director June O’Neill estimates that welfare reform may be responsible “for as much as half of the decline in child poverty among black and Hispanic households headed by single mothers – groups that had the highest rates of welfare participation and child poverty prior to reform.”<sup>6</sup> Another report analyzing changing incomes in the 1990s found that “children in families below this point [i.e. the poverty line] -- show larger increases in income than do children in most higher-income families, suggesting that most poor families experienced larger income gains than did most middle and upper-middle income families.”<sup>7</sup>

Other post-reform reviews looked beyond welfare, income and poverty to note that the 1990s witnessed the first declines in a generation in the number of people trapped in the “underclass,” which is characterized by unmarried teen pregnancy, dropping out of high school, chronic joblessness, and participation in crime.<sup>8</sup> Wendell Primus, a Democrat welfare expert

who quit his post at the Department of Health and Human Services over President Clinton's signing of the 1996 welfare reform law, said in 2001 "In many ways welfare reform is working better than I thought it would. . . . Whatever we have been doing over the last five years, we ought to keep going."<sup>9</sup> Even the *New York Times*, which on August 1, 1996 said the about-to-be signed legislation "creates child poverty," by April 8, 2002 opined that "Welfare reform has been an obvious success."

Despite the success of welfare reform in reducing poverty, more work is needed. After rising sharply following the 1996 law, work rates among welfare recipients stagnated in recent years; caseload declines slowed; and poverty rates edged upwards following the 2001 recession and terrorist attacks. The further welfare reforms included in the *Deficit Reduction Act of 2005* (P.L. 109-171) are designed to reinvigorate reform by supporting and promoting more work and earnings among low-income families and thus also less poverty. States will be expected to engage more parents on welfare in work and training, and child care funding is increased by \$1 billion through 2010 to support more work. Significantly, the *Deficit Reduction Act* includes specific funds for the first time for strengthening healthy marriage and promoting responsible fatherhood, key bulwarks against poverty.

Building on the success of the 1996 reforms, the reforms in the recently-enacted *Deficit Reduction Act* are backed by extensive research suggesting policies promoting work and marriage are the most effective anti-poverty strategies: the poverty rate for families with children would drop 42 percent if low-income parents worked full time; marriage among low-income parents would reduce poverty 27 percent. As the chart<sup>10</sup> below shows, these and related strategies are far more effective, even in isolation, than doubling the amount of welfare benefits, which would make only a comparatively small dent in overall poverty rates.



<sup>1</sup> U.S. Census Bureau, "Income, Poverty and Health Insurance Coverage in the United States: 2004," August 2005, <http://www.census.gov/prod/2005pubs/p60-229.pdf>.

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<sup>2</sup> Thomas Gabe, "Trends in Poverty in the United States," Congressional Research Service, September 2005.

<sup>3</sup> Children's Defense Fund press release, July 31, 1996.

<sup>4</sup> For more detail, see Committee on Ways and Means, "A Decade Since Welfare Reform: 1996 Welfare Reforms Increase Work and Earnings," March 2006,

<http://waysandmeans.house.gov/media/pdf/welfare/033006welfarereport.pdf> .

<sup>5</sup> Even after the 2001 recession, poverty rates remain significantly lower than they were before the 1996 reforms, confounding opponents' predictions. For example, in testifying on behalf of the National Governors' Association before the Ways and Means Committee on January 12, 1995, former Vermont Governor Howard Dean said "We also believe that if the entitlement is completely broken and block grants are level funded over the next several years, the first time there is a recession the States will then be forced to choose between a tax increase or literally putting people in the street, and the majority of the welfare caseload is of course children."

<sup>6</sup> June O'Neil and Sanders Korenman, "Child Poverty and Welfare Reform: Stay the Course," December 2004, [http://www.manhattan-institute.org/html/cr\\_44.htm](http://www.manhattan-institute.org/html/cr_44.htm) .

<sup>7</sup> Robert F. Schoeni and Rebecca M. Blank, "Changes in the Distribution of Children's Family Income Over the 1990s," January 2003, <http://www-personal.umich.edu/~bschoeni/blankschoeni%20pp.pdf> .

<sup>8</sup> Paul Jargowsky and Isabel Sawhill, "The Decline of the Underclass," January 2006, <http://www.brookings.edu/es/research/projects/wrb/publications/pb/pb36.pdf> . "Perhaps the most striking finding about the underclass is its recent decline (see figure 1). Using the Ricketts-Sawhill definition, various researchers have found that the underclass grew dramatically in the 1970s, edged up further in the 1980s, and declined quite sharply in the 1990s (although not to its 1970 level). The immediate reasons for the decline were reductions in the number of census tracts with high levels of dropping out of high school and high levels of public assistance receipt. The smaller number of tracts with high levels of welfare dependency undoubtedly reflects the reform of welfare in 1996 and the subsequent sharp decline in caseloads." (p. 3)

<sup>9</sup> Blaine Harden, "Two Parent Families Rise after Change in Welfare Laws," *New York Times*, August 12, 2001.

<sup>10</sup> Ron Haskins and Isabel Sawhill, "Work and Marriage: The Way to End Poverty and Welfare" September 2003, <http://www.brookings.edu/es/wrb/publications/pb/pb28.pdf> .